



PUBLIC DISCLOSURE

JULY 18, 2016

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**VERUS BANK
RSSD# 728452**

**1033 NORTH BUCKNER
DERBY, KANSAS 67037**

**Federal Reserve Bank of Kansas City
1 Memorial Drive
Kansas City, Missouri 64198**

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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INSTITUTION'S COMMUNITY REINVESTMENT ACT RATING: *This institution is rated Satisfactory*

Verus Bank (the bank) has a satisfactory record of helping to meet the credit needs of its assessment area (AA), consistent with its resources and operating philosophy. The average net loan-to-deposit (NLTD) ratio is reasonable considering the characteristics of the bank, performance of local competitors, and credit needs of the community. A substantial majority of loans were originated inside the AA, and lending reflects reasonable penetration throughout the AA based on the income level of geographies. Lending further reflects reasonable penetration among borrowers of different income levels and to businesses and farms of different revenue sizes.

SCOPE OF EXAMINATION

The bank's Community Reinvestment Act (CRA) performance was evaluated using the Federal Financial Institutions Examination Council's (FFIEC's) Interagency Small Institution Examination Procedures. Four of the five criteria used in evaluating small bank lending performance were relevant to this review and are as follows:

- NLTD Ratio
- Lending Inside the AA
- Distribution of Loans by Income Level of Geographies
- Lending to Borrowers of Different Income Levels and to Businesses and Farms of Different Revenue Sizes

The fifth criterion, the bank's responsiveness to complaints under the CRA, was not evaluated since the bank had not received any complaints concerning CRA.

The examination evaluated the bank's performance in the above criteria in the context of demographic information for the area in which the bank operates. The designated AA includes all of Sedgwick and Butler Counties in Kansas. Conclusions regarding the four performance criteria were based on data compiled from the bank's major product lines, which were residential real estate, commercial, and agricultural loans. The major product lines were determined through discussions with management, a review of the Reports of Condition and Income (Call Report), and a review of the number of outstanding loan originations since the bank's last CRA examination on June 11, 2012.

The examination analyzed 146 residential real estate loans originated between January 1, 2014 and December 31, 2015, which were reported on the bank's Home Mortgage Disclosure Act (HMDA) Loan/Application Register. The examination also reviewed a statistical sample of 64 small business loans from a universe of 94 loans originated between April 17, 2012 and December 31, 2015. Lastly, the examination reviewed a statistical sample of 45 small farm loans from a universe of 58 loans originated between January 1, 2015 and December 31, 2015.

For evaluative purposes, the bank's performance for HMDA-related loans was compared to local demographic data using the U.S. Census 2006-2010 five-year estimated American Community Survey (2010 ACS) data, FFIEC Census data, and 2014 aggregate HMDA data of other HMDA reporters operating in the AA, while the bank's small business and small farm lending was compared to corresponding (2012 through 2015) Dun & Bradstreet (D&B) data. For the geographic distribution analysis, the geographies of the AA were classified based on FFIEC's Census tract designations, which were derived from 2010 ACS data and the 2003 and 2013 Office of Management and Budget Metropolitan Statistical Area (MSA) designations. For the borrower distribution analysis, the borrower income levels were calculated using the FFIEC's Estimated Median Family Income (MFI) listing for 2014 and 2015.

While conclusions with respect to the bank's HMDA lending performance were evaluated for both 2014 and 2015, only lending tables presenting 2014 loan data will be shown. In addition, only 2014 small business lending tables will be shown. For reference, the bank's 2015 HMDA lending data and 2012, 2013, and 2015 small business lending data can be reviewed in Appendix A. Additional appendix data includes 2012, 2013, and 2015 AA demographics.

Interviews conducted with members of the community were used to augment the evaluation, ascertain local market conditions, determine specific credit needs of the AA, and determine the bank's responsiveness in helping to meet such needs.

DESCRIPTION OF INSTITUTION

Verus Bank, a wholly owned subsidiary of First Team Resource Corporation, is a \$134.3 million (MM) financial institution headquartered in Derby, Kansas, which is approximately 12 miles south of Wichita, Kansas. In addition to the main office, the bank has three additional branches in Derby, El Dorado, and Augusta, Kansas. The bank also operates a limited-service branch inside Derby High School. The bank operates full-service automated teller machines (ATMs) at each location, with the exception of its limited-service branch, which does not have an ATM. Since the previous examination in 2012, the bank closed a limited-service branch in El Dorado, Kansas; however, the bank maintains a full-service ATM at this location.

The bank reported total net loans of \$88.7MM and total deposits of \$114.5MM on its December 31, 2015 Call Report. According to the Federal Deposit Insurance Corporation (FDIC) Deposit Market Share Report as of June 30, 2015, the bank has a small presence in the AA, with approximately 0.9 percent of the market share of Sedgwick and Butler County's FDIC-insured deposits. The bank is ranked 15th among 45 financial institutions with locations in Sedgwick and Butler Counties. The bank offers a variety of products to meet the credit needs of the AA, focusing on residential real estate, commercial, and agricultural lending. Table 1 illustrates the distribution of the bank's loan portfolio as of December 31, 2015.

TABLE 1 VERUS BANK LOAN PORTFOLIO DECEMBER 31, 2015		
Loan Type	Amount \$(000)	Percent of Total
Residential Real Estate	37,760	42.2
Commercial	27,374	30.6
Agricultural	20,818	23.3
Consumer	3,517	3.9
Other	38	0.0
Gross Loans	89,507	100.0

There are no legal or financial factors impeding the institution's ability to meet the credit needs of its AA. The bank received a Satisfactory rating at its previous CRA evaluation conducted by the Federal Reserve Bank of Kansas City on June 11, 2012.

DESCRIPTION OF THE BANK'S ASSESSMENT AREA¹

The bank's AA is comprised of all census tracts in Sedgwick and Butler Counties, two of five counties that comprise the Wichita MSA. The AA contains 12 low-, 46 moderate-, 37 middle-, and 42 upper-income census tracts. There are no underserved or distressed areas in the bank's AA. The bank operates four full-service locations and one limited-service location within the AA.

Population Characteristics

According to 2010 Census data, the total population in the AA was 564,245, which represents a 10.1 percent increase since 2000. The AA continues to grow as census information indicates that between 2010 and 2014, the population increased an additional 1.9 percent. Of the two counties that comprise the bank's AA, Sedgwick County is the state's second most populous county, accounting for 17.5 percent of the state's total population.

The largest portion of the AA's population (51.7 percent) is between the ages of 25 to 64 years old. The 2010 Census data showed that 66.6 percent of total households living in the AA were families, compared to 66.7 percent of households in the Wichita MSA and 66.4 percent of households in the state of Kansas.

Income Characteristics

The MFI for the AA was \$61,573, which was slightly higher than the MSA figure of \$61,402, and below the statewide figure of \$62,424. The AA had a higher concentration of low- and moderate-income (LMI) families, at 38.8 percent, when compared to the state, at 36.0 percent, and had a comparable figure to the Wichita MSA at 38.7 percent. Furthermore, the

¹ Sources of economic and demographic data include 2010 ACS five-year average, 2014 FFIEC's Census data, 2014 D&B, U.S. Bureau of Labor Statistics, and 360Wichita.com.

percentage of families living below poverty in the AA was 9.8 percent compared to 8.4 percent in Kansas and 9.5 percent in the Wichita MSA.

Employment Characteristics

As shown in Exhibit 1, employment conditions in the AA have continually improved since the previous CRA evaluation in 2012. According to the U.S. Bureau of Labor Statistics from December 2015, the unemployment rate in the AA was 4.6 percent, which is slightly higher than the state of Kansas unemployment rate of 4.2 percent, but lower than the national figure of 5.3 percent.

Exhibit 1 Annual Unemployment Rates				
Area	2012	2013	2014	2015
Verus Bank AA	6.6	5.9	5.2	4.6
State of Kansas	5.7	5.3	4.6	4.2
U.S.	8.1	7.4	6.2	5.3

Employment opportunities are supported by major industries in the AA, which include aviation, health care, and retail/service businesses. Major employers within the greater metropolitan area include Spirit AeroSystems, Via Christi Health System, Unified School District 259, Cessna Aircraft, McConnell Air Force Base, and the State of Kansas. According to a community contact, Wichita's economic condition is stable and is emerging from the effects of the most recent recession. Despite Boeing's relocation from Wichita to Oklahoma City, Oklahoma, employment opportunities still exist in the aerospace industry. New employment opportunities are also present in the emerging small business sector.

Several colleges also are located within the bank's AA, including Wichita State University, Wichita Area Technical College, Newman University, and Butler Community College.

Housing Characteristics

The median housing value within the AA is \$117,807, which is lower than the state figure of \$122,600, but higher than the Wichita MSA figure of \$114,382. The AA's housing affordability ratio² of 41.3 percent is higher than the state affordability ratio of 40.3 percent but lower than the Wichita MSA affordability ratio of 42.4 percent. These ratios correlate to information received from a local community contact stating that price points and inventory in the Wichita area were available for borrowers of all income levels.

The median age of housing stock in the AA was 39 years, which is similar to both the Wichita MSA and state of Kansas figures at 39 years and 38 years, respectively. A local community contact stated that new housing construction in Wichita has slowed down, and more residents are staying in their homes for a longer period of time. Therefore, as current housing stock continues to age, an increased demand for home improvement loans could occur in the future. Owner-occupied housing units account for 62.4 percent of total housing units in the AA, while rental units account for 29.2 percent.

² The housing affordability ratio is calculated by dividing the median household income by the median housing value. A lower ratio reflects less affordable housing.

Table 2 summarizes the income-related demographics and economic characteristics of the bank's AA based on 2014 FFIEC's Census data.

TABLE 2 VERUS BANK'S 2014 ASSESSMENT AREA DEMOGRAPHICS								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low	12	8.8	7,099	5.0	2,391	33.7	29,226	20.4
Moderate	46	33.6	39,738	27.8	7,189	18.1	26,168	18.3
Middle	37	27.0	42,545	29.8	2,653	6.2	29,954	21.0
Upper	42	30.7	53,573	37.5	1,751	3.3	57,607	40.3
Total AA	137	100.0	142,955	100.0	13,984	9.8	142,955	100.0
	Housing Units by Tract	Housing Type by Tract						
		Owner-occupied			Rental		Vacant	
		#	% by tract	% by unit	#	% by unit	#	% by unit
Low	17,462	4,795	3.3	27.5	9,100	52.1	3,567	20.4
Moderate	76,141	36,919	25.2	48.5	30,417	39.9	8,805	11.6
Middle	68,150	45,132	30.8	66.2	18,857	27.7	4,161	6.1
Upper	72,788	59,534	40.7	81.8	10,065	13.8	3,189	4.4
Total AA	234,541	146,380	100.0	62.4	68,439	29.2	19,722	8.4
	Total Businesses by Tract		Businesses by Tract & Revenue Size					
			Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported	
			#	%	#	%	#	%
Low	2,408	10.7	1,980	10.0	362	19.1	66	8.8
Moderate	5,430	24.2	4,711	23.8	541	28.6	178	23.8
Middle	6,463	28.8	5,733	29.0	484	25.6	246	32.9
Upper	8,127	36.2	7,365	37.2	504	26.7	258	34.5
Total AA	22,428	100.0	19,789	100.0	1,891	100.0	748	100.0
Percentage of Total Businesses:				88.2		8.4		3.3
	Total Farms by Tract		Farms by Tract & Revenue Size					
			Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported	
			#	%	#	%	#	%
Low	4	0.5	3	0.4	1	12.5	0	0.0
Moderate	34	4.2	33	4.1	1	12.5	0	0.0
Middle	365	45.4	362	45.5	3	37.5	0	0.0
Upper	401	49.9	398	50.0	3	37.5	0	0.0
Total AA	804	100.0	796	100.0	8	100.0	0	0.0
Percentage of Total Farms:				99.0		1.0		0.0
Based on 2010 ACS five-year estimate, 2014 FFIEC's Census tract designations, and 2014 D&B data. (NOTE: Total percentages shown may vary by 0.1 percent due to automated rounding differences.)								

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's performance is considered satisfactory based on an assessment of its 16-quarter average NLTD ratio, level of lending within its AA, geographic lending distribution, and lending to borrowers of different income levels and to businesses and farms of different revenue sizes.

Net Loan-to-Deposit Ratio:

This performance criterion utilizes the bank's average NLTD ratio to evaluate the reasonableness of lending in light of performance context information regarding the bank's capacity to lend, availability of lending opportunities, and demographic and economic factors present in the AA.

The bank's NLTD ratio is considered reasonable given the bank's size, financial condition, and current local economic conditions. The bank's NLTD ratio averaged 72.0 percent in the 16 quarters since the bank's previous CRA evaluation. The bank's average NLTD ratio was comparable to the average of five similarly situated competitor banks, which ranged from 54.4 percent to 82.0 percent.

Assessment Area Concentration:

As shown in Table 3, the bank made a substantial majority, 92.5 percent overall (89.5 percent by dollar), of its loans inside its AA. By number, the bank originated 94.5 percent of its residential real estate, 92.2 percent of its small business loans, and 86.7 percent of its small farm loans inside its AA. Similar performance is noted below by dollar, with 95.4 percent of the residential real estate, 82.6 percent of the small business loans, and 89.2 percent of the small farm loans originated in the bank's AA.

Bank Loans	Inside				Outside			
	#	\$(000s)	#%	\$%	#	\$(000s)	#%	\$%
Home Purchase	70	5,230	94.6	92.0	4	455	5.4	8.0
Refinancing	42	7,234	93.3	97.4	3	192	6.7	2.6
Home Improvement	24	185	96.0	96.4	1	7	4.0	3.6
Multifamily Housing	2	872	100.0	100.0	0	0	0.0	0.0
Total HMDA-Related	138	13,521	94.5	95.4	8	654	5.5	4.6
Small Business	59	9,701	92.2	82.6	5	2,039	7.8	17.4
Small Farm	39	5,387	86.7	89.2	6	655	13.3	10.8
TOTAL LOANS	236	28,609	92.5	89.5	19	3,348	7.5	10.5

The remaining conclusions are based only on the loans originated inside the AA.

Distribution by Income Level of Geographies:

This criterion compared the bank's lending throughout its AA to the percentages of owner-

occupied housing units, small businesses, and small farms located in each income tract level, emphasizing lending in the LMI tracts. The evaluation reviewed both the number of loans originated and dollar volume. As noted in Table 4, multifamily housing loans comprised a small portion of the bank's overall HMDA lending and were not subject to further review within the remainder of the analysis. Overall, the geographic distribution of loans was considered reasonable.

**TABLE 4
DISTRIBUTION OF 2014 HOME MORTGAGE DISCLOSURE ACT LOANS
BY INCOME LEVEL OF GEOGRAPHY**

Census Tract Income Level	Bank Loans				Aggregate HMDA Data ¹		% of Owner- Occupied Units ²
	#	\$(000)	%	\$%	%	\$%	
Total Home Mortgage Loans							
Low	6	632	7.1	7.1	1.7	1.2	3.3
Moderate	28	1,960	32.9	22.0	20.8	12.4	25.2
Middle	33	4,746	38.8	53.3	30.3	27.7	30.8
Upper	18	1,574	21.2	17.7	47.3	58.7	40.7
Total	85	8,912	100.0	100.0	100.0	100.0	100.0
Home Purchase Loans							
Low	2	71	4.7	2.0	1.5	0.8	3.3
Moderate	18	914	41.9	26.2	19.8	10.9	25.2
Middle	16	2,010	37.2	57.7	29.6	26.0	30.8
Upper	7	491	16.3	14.1	49.1	62.3	40.7
Total	43	3,486	100.0	100.0	100.0	100.0	100.0
Home Refinance Loans							
Low	4	561	14.8	12.5	1.8	1.1	3.3
Moderate	7	916	25.9	20.4	22.2	13.7	25.2
Middle	7	1,940	25.9	43.2	31.2	28.8	30.8
Upper	9	1,076	33.3	23.9	44.9	56.4	40.7
Total	27	4,493	100.0	100.0	100.0	100.0	100.0
Home Improvement Loans							
Low	0	0	0.0	0.0	2.0	0.8	3.3
Moderate	2	8	15.4	13.1	21.2	13.7	25.2
Middle	9	46	69.2	75.4	32.7	33.0	30.8
Upper	2	7	15.4	11.5	44.1	52.5	40.7
Total	13	61	100.0	100.0	100.0	100.0	100.0
Multifamily Loans							
Low	0	0	0.0	0.0	14.8	10.5	3.3
Moderate	1	122	50.0	14.0	54.1	30.3	25.2
Middle	1	750	50.0	86.0	27.9	46.2	30.8
Upper	0	0	0.0	0.0	3.3	13.0	40.7
Total	2	872	100.0	100.0	100.0	100.0	100.0

¹ Aggregate loan data reflects all loan originations in the bank's AA reported by all HMDA filers.

² The percentage of owner-occupied housing is based on 2014 FFIEC Census data.
(NOTE: Total percentages shown may vary by 0.1 percent due to automated rounding differences.)

Home Mortgage Disclosure Act-Related Loans

Overall Home Mortgage Disclosure Act Lending

The geographic distribution of the bank's 2014 HMDA reportable loans was considered reasonable. As shown in Table 4, the bank's lending in low-income census tracts at 7.1 percent (7.1 percent by dollar), exceeds the performance of aggregate HMDA lenders at 1.7 percent (1.2 percent by dollar) and the percentage of owner-occupied units located in the same census tracts at 3.3 percent. Lending in moderate-income tracts at 32.9 percent (22.0 percent by dollar) was also above aggregate and the percentage of owner-occupied units at 20.8 percent (12.4 percent by dollar) and 25.2 percent, respectively. The majority of the LMI census tracts in the bank's AA are located in the city of Wichita, approximately 12 miles from the bank's closest branch location in Derby, Kansas. A community contact stated that the city's primary redevelopment incentive area for LMI housing is located in the northwest quadrant of the city.

The bank's lending in middle-income census tracts at 38.8 percent (53.3 percent by dollar) is higher than both aggregate (30.3 percent by number, 27.7 percent by dollar) and the percentage of owner-occupied units at 30.8 percent. Lending to upper-income census tracts was below both aggregate and the percentage of owner-occupied units. Of the bank's five locations, two are located in moderate-income census tracts, one is located in a middle-income census tract, and two are located in upper-income census tracts. In 2015, the bank had similar performance with lending to LMI census tracts higher than the percentage of owner-occupied units. Lending in middle- and upper-income census tracts was slightly below demographics. Please refer to Appendix A for more information.

Home Purchase Loans

The bank's 2014 home purchase lending reflected a reasonable penetration in the LMI tracts throughout the AA. The bank's lending in the low-income tracts at 4.7 percent (2.0 percent by number) exceeded the performance of aggregate HMDA lenders at 1.5 percent (0.8 percent by dollar) and exceeded the percentage of owner-occupied units by number of originations, at 3.3 percent. Lending in moderate-income tracts at 41.9 percent (26.2 percent by dollar) exceeded both aggregate lenders and demographic data, at 19.8 percent and 25.2 percent, respectively. Lending in middle-income tracts exceeded both aggregate lenders and demographic data, while lending in upper-income tracts by both number and dollar fell below both aggregate lenders and demographic data.

Refinance Loans

The bank's 2014 home refinance lending was reasonable throughout the AA. Lending in low-income tracts at 14.8 percent (12.5 percent by dollar) greatly exceeded both the performance of aggregate lenders and the percentage of owner-occupied units at 1.8 percent (1.1 percent by dollar) and 3.3 percent, respectively. Lending in moderate-income tracts at 25.9 percent (20.4 percent by dollar) was comparable to both aggregate lenders (22.2 percent, 13.7 percent

by dollar) and demographic data (25.2 percent). Home refinance loans in middle-income tracts fell below aggregate lenders and the demographic data by number; however, by dollar the bank's lending was greater than both. Lending in upper-income tracts by both number and dollar fell below aggregate lenders and demographic data.

Home Improvement Loans

Although the bank did not make any home improvement loans in low-income tracts in 2014, the percentage of owner-occupied units at 3.3 percent and the aggregate data at 2.0 percent (0.8 percent by dollar) show there is limited opportunity and demand to make such loans in these tracts. Lending in moderate-income tracts at 15.4 percent (13.1 percent by dollar) fell slightly below aggregate figures of 21.2 percent (13.7 percent by dollar) and the percentage of owner-occupied units. Home improvement lending in middle-income tracts at 69.2 percent (75.4 percent by dollar) greatly exceeded aggregate (32.7 percent, 33.0 percent by dollar) and the percentage of owner-occupied units at 25.2 percent. Lending in upper-income tracts by both number and dollar was less than aggregate lenders and demographic data. Although the bank's lending in LMI tracts fell below aggregate and the percentage of families in the same areas, geographic lending for home improvement loans was considered reasonable.

Census Tract Income Level	Small Business Loans ¹				% of Businesses ²
	#	\$(000)	#%	\$%	
Low	0	0	0.0	0.0	10.7
Moderate	1	16	8.3	0.8	24.2
Middle	8	1,729	66.7	81.7	28.8
Upper	3	371	25.0	17.5	36.2

¹ CRA defines small business loans as loans in the amount of \$1MM or less.
² Based on 2014 FFIEC Census tract designations and 2014 D&B data.
 (NOTE: Total percentages shown may vary by 0.1 percent due to automated rounding differences.)

Small Business Loans

As shown in Table 5, the bank did not originate any small business loans in low-income tracts, compared to 10.7 percent of businesses located in the AA. In the moderate-income tracts, the bank's originations (8.3 percent, 0.8 percent by dollar) were less than the percentage of businesses at 24.2 percent. According to a community contact, small business growth was hampered in Butler County (including the cities of Augusta and El Dorado) from 2010 to 2014, with several businesses exiting the market. As such, business loan demand in Butler County during these years was limited; however, over the past two years, small businesses have begun to take advantage of expansion opportunities.

Small business loans made in middle-income tracts at 66.7 percent (81.7 percent by dollar) exceeded the percentage of businesses at 28.8 percent. Lending in upper-income tracts at

25.0 percent (17.5 percent by dollar) was below demographic figures. A community contact stated small businesses in the area are currently not having trouble obtaining business credit. While the bank's overall lending in LMI census tracts is less than demographic figures, the differences are considered reasonable given the sample size of loans, a higher amount of competition in the Wichita MSA with 43 competitor banks operating 192 offices, and the distance from the bank's branches to LMI census tracts. In 2012, 2013, and 2015, the bank's lending performance was similar to 2014 results. Please see Appendix A for more information.

Census Tract Income Level	Small Farm Loans ¹				% of Farms ²
	#	\$(000)	#%	\$%	
Low	0	0	0.0	0.0	1.3
Moderate	3	153	7.7	2.8	4.0
Middle	33	4,648	84.6	86.3	44.9
Upper	3	587	7.7	10.9	49.7

¹ CRA defines small farm loans as loans in the amount of \$500 thousand or less.
² Based on 2015 FFIEC Census tract designations and 2015 D&B data.
(NOTE: Total percentages shown may vary by 0.1 percent due to automated rounding differences.)

Small Farm Loans

The bank's level of lending to small farms was considered reasonable. Table 6 illustrates that no loans were made in low-income tracts, which is similar to the low percentages of farms in low-income tracts at 1.3 percent. As stated earlier, the majority of low-income tracts are located in the city of Wichita, where limited farm operations exist. The percentages of the bank's small farm loans in moderate-income tracts was 7.7 percent (2.8 percent by dollar), which compared favorably to the percentage of small farms in moderate-income tracts at 4.0 percent. Small farms loans in middle-income tracts also compared favorably at 84.6 percent (86.3 percent by dollar) compared to 44.9 percent of small farms located within middle-income tracts. The bank's lending to farms in the upper-income census tracts was below demographics.

Distribution by Borrower Income and Revenue Size of the Businesses and Farms:

This criterion evaluates the bank's lending to borrowers of different income levels, particularly LMI individuals. Additionally, the analysis focuses on the bank's level of lending to businesses and farms in the AA, emphasizing those with gross annual revenues of \$1MM or less. The evaluation reviews both the number of loan originations and the dollar volume. Overall, the borrower distribution of loans was considered reasonable.

**TABLE 7
DISTRIBUTION OF 2014 HOME MORTGAGE DISCLOSURE ACT LOANS
BY BORROWER INCOME LEVELS**

Borrower Income Level	Bank Loans				Aggregate HMDA Data ¹		% of Families ²
	#	\$(000)	#%	\$%	#%	\$%	
Total Home Mortgage Loans³							
Low	9	546	10.6	6.1	8.4	4.3	20.4
Moderate	9	579	10.6	6.5	19.1	13.6	18.3
Middle	11	548	12.9	6.1	20.9	18.8	21.0
Upper	21	2,064	24.7	23.2	31.0	39.9	40.3
Unknown	35	5,175	41.2	58.1	20.6	23.5	0.0
Total	85	8,912	100.0	100.0	100.0	100.0	100.0
Home Purchase Loans							
Low	2	113	4.7	3.2	8.6	4.6	20.4
Moderate	3	81	7.0	2.3	21.0	15.8	18.3
Middle	5	226	11.6	6.5	21.5	21.0	21.0
Upper	14	1,610	32.6	46.2	29.4	41.3	40.3
Unknown	19	1,456	44.2	41.8	19.6	17.3	0.0
Total	43	3,486	100.0	100.0	100.0	100.0	100.0
Refinanced Loans							
Low	5	423	18.5	9.4	7.9	4.1	20.4
Moderate	2	480	7.4	10.7	15.7	10.5	18.3
Middle	3	302	11.1	6.7	19.4	15.9	21.0
Upper	3	441	11.1	9.8	31.8	40.5	40.3
Unknown	14	2,847	51.9	63.4	25.3	29.0	0.0
Total	27	4,493	100.0	100.0	100.0	100.0	100.0
Home Improvement Loans							
Low	2	10	15.4	16.4	10.3	4.6	20.4
Moderate	4	18	30.8	29.5	17.8	10.7	18.3
Middle	3	20	23.1	32.8	23.3	20.3	21.0
Upper	4	13	30.8	21.3	42.7	49.5	40.3
Unknown	0	0	0.0	0.0	5.9	14.9	0.0
Total	13	61	100.0	100.0	100.0	100.0	100.0
¹ Aggregate loan data reflects all loan originations in the bank's AA reported by all HMDA filers. ² Based on 2010 five-year estimate data and 2014 FFIEC Census tract designations. ³ Multifamily loans were not considered in the borrower analysis. (NOTE: Total percentages shown may vary by 0.1 percent due to automated rounding differences.)							

Home Mortgage Disclosure Act-Related Loans

Overall Home Mortgage Disclosure Act Lending

The bank's distribution of 2014 HMDA reportable loans to borrowers of different income levels was considered reasonable. As shown in Table 7, the bank originated 10.6 percent (6.1 percent by dollar) of loans to low-income borrowers which compares favorably to aggregate HMDA lender data at 8.4 percent and 4.3 percent by dollar. The bank's distribution fell below the percentage of low-income families, however, at 20.4 percent. The bank's

lending to moderate-income borrowers at 10.6 percent (6.5 percent by dollar) is below aggregate HMDA lending data and demographics. The bank's lending to middle- and upper-income borrowers was also lower than aggregate HMDA lending data and area demographics.

The analysis of HMDA-related loans by borrowers of different income levels was affected by anomalies in the bank's data. Large percentages (41.2 percent and 58.1 percent by dollar) of the bank's HMDA-reportable loans are nonowner-occupied and are primarily for business purpose to purchase or refinance investment properties. As such, the bank either did not report any income or the incomes reported included business revenue that does not correlate well to the income category calculations based on the FFIEC's MFI. For this reason, the bank's performance under the borrower distribution criterion is skewed for all borrower income levels. In 2015, loans to low-, moderate-, middle-, and upper-income borrowers also were below demographics. Please refer to Appendix A for more information.

Home Purchase Loans

The bank originated 4.7 percent (3.2 percent by dollar) of home purchase loans to low-income borrowers, compared to aggregate lenders at 8.6 percent (4.6 percent by dollar) and demographic data at 20.4 percent. Lending to moderate-income borrowers at 7.0 percent (2.3 percent by dollar) also was below aggregate figures and the percentage of families at 21.0 percent (15.8 percent by dollar) and 18.3 percent, respectively. A community contact stated that the area is starting to see growth in the residential real estate market, with an increase in building permits and purchase activity. In contrast to this, purchase and refinance activity had been slower over the past four years; therefore, indicating that lending opportunities for home purchase loans was limited during this same time frame. The distribution of home purchase loans to middle-income borrowers also was lower than aggregate and demographic figures, while lending to upper-income borrowers was higher than aggregate but slightly lower than then percentage of families in the AA. The distribution of home purchase loans to borrowers of different income levels in the AA is reasonable.

Refinance Loans

The distribution of home refinance loans to borrowers of different income levels in the AA is reasonable. The bank originated 18.5 percent (9.4 percent by dollar) of refinance loans to low-income borrowers, which compares favorably to aggregate at 7.9 percent (4.1 percent by dollar) and is slightly less than the percentage of families at 20.4 percent. Lending to moderate-income borrowers (7.4 percent by number and 10.7 percent by dollar) was less than aggregate by number, but nearly equivalent by dollar, and was lower than demographic data at 18.3 percent. Refinance loans made to middle- and upper-income borrowers were lower than aggregate and demographic figures.

Home Improvement Loans

The distribution of home improvement loans to borrowers of different income levels in the AA is reasonable. Home improvement loans made to low-income borrowers at 15.4 percent

(16.4 percent by dollar) exceeded aggregate data but were lower than the percentage of families in the AA at 20.4 percent. Lending to moderate-income borrowers accounted for 30.8 percent (29.5 percent by dollar) of home improvement loans, which compares favorably to both aggregate lenders and demographic data. Home improvement lending to middle-income borrowers was slightly lower than aggregate data by number but was higher than aggregate by dollar volume and higher than the percentage of families. Lending to upper-income borrowers was less than aggregate and demographic figures.

TABLE 8 DISTRIBUTION OF 2014 SMALL BUSINESS LOANS BY REVENUE SIZE					
Business Revenue By Size	Small Business Loans¹				% of Businesses²
	#	\$(000)	#%	\$%	
\$1MM or less	9	2,019	75.0	95.4	88.2
Over \$1MM	3	96	25.0	4.6	8.4
Not Known	0	0	0.0	0.0	3.3

¹ The CRA defines small business loans as loans in the amount of \$1MM or less.
² Based on 2014 D&B data.
(NOTE: Total percentages shown may vary by 0.1 percent due to automated rounding differences.)

Small Business Loans

As shown in Table 8, the bank’s lending to small businesses with gross annual revenues of less than \$1MM represented 75.0 percent (95.4 percent by dollar) of all business loans originated during the sample period. This is slightly lower than the percentage of businesses in the AA at 88.2 percent but is considered reasonable as the bank’s performance exceeds aggregate data (reported lending by all CRA filers in the bank’s AA) at 38.1 percent by number and 37.4 percent by dollar. In 2012, the bank’s lending performance exceeded the demographics; while in 2013 and 2015, the bank’s lending was similar to 2014. Please see Appendix A for more information.

TABLE 9 DISTRIBUTION OF 2015 SMALL FARM LOANS BY REVENUE SIZE					
Farm Revenue By Size	Farm Loans¹				% of Farms²
	#	\$(000)	#%	\$%	
\$1MM or less	35	3,815	89.7	70.8	98.8
Over \$1MM	4	1,572	10.3	29.2	1.2
Not Known	0	0	0.0	0.0	0.0

¹ The CRA defines small farm loans in the amount of \$500 thousand or less.
² Based on 2015 D&B data.
(NOTE: Total percentages shown may vary by 0.1 percent due to automated rounding differences.)

Small Farm Loans

As shown in Table 9, the bank's percentage of lending to farms with gross annual revenues of less than \$1MM represented 89.7 percent (70.8 percent by dollar) of all business loans originated during the sample period. While the bank's lending to small farms in the AA was slightly less than demographic at 98.8 percent, it is considered reasonable based on competition within the bank's AA.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

The bank is in compliance with the substantive provisions of the antidiscrimination laws and regulations. A review of the bank policies and procedures, credit applications, loans and denials, and staff interviews revealed no prohibited practices designed to discourage loan applicants. Also, the bank had not engaged in other illegal credit practices inconsistent with helping to meet the credit needs of its communities.

APPENDIX A

**TABLE 10
VERUS BANK'S 2015 ASSESSMENT AREA DEMOGRAPHICS**

Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low	12	8.8	7,099	5.0	2,391	33.7	29,226	20.4
Moderate	46	33.6	39,738	27.8	7,189	18.1	26,168	18.3
Middle	37	27.0	42,545	29.8	2,653	6.2	29,168	21.0
Upper	42	30.7	53,573	37.5	1,751	3.3	57,607	40.3
Total AA	137	100.0	142,955	100.0	13,984	9.8	142,955	100.0
	Housing Units by Tract	Housing Type by Tract						
		Owner-occupied			Rental		Vacant	
		#	% by tract	% by unit	#	% by unit	#	% by unit
Low	17,462	4,795	3.3	27.5	9,100	52.1	3,567	20.4
Moderate	76,141	36,919	25.2	48.5	30,417	39.9	8,805	11.6
Middle	68,150	45,132	30.8	66.2	18,857	27.7	4,161	6.1
Upper	72,788	59,534	40.7	81.8	10,065	13.8	3,189	4.4
Total AA	234,541	146,380	100.0	62.4	68,439	29.2	19,722	8.4
	Total Businesses by Tract	Businesses by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Low	2,457	10.7	2,035	9.8	408	18.8	14	13.3
Moderate	5,395	23.5	4,785	23.1	591	27.3	19	18.1
Middle	6,607	28.8	6,001	29.0	564	26.0	42	40.0
Upper	8,501	37.0	7,868	38.0	603	27.8	30	28.6
Total AA	22,960	100.0	20,689	100.0	2,166	100.0	105	100.0
Percentage of Total Businesses:				90.1	9.4	0.5		
	Total Farms by Tract	Farms by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Low	10	1.3	8	1.1	2	22.2	0	0.0
Moderate	30	4.0	29	3.9	1	11.1	0	0.0
Middle	337	44.9	334	45.1	3	33.3	0	0.0
Upper	373	49.7	370	49.9	3	33.3	0	0.0
Total AA	750	100.0	741	100.0	9	100.0	0	0.0
Percentage of Total Farms:				98.8	1.2	0.0		

Based on 2010 ACS five-year estimate data, 2015 FFIEC Census tract designations, and 2015 D&B data.
(NOTE: Total percentages shown may vary by 0.1 percent due to automated rounding differences.)

**TABLE 11
DISTRIBUTION OF 2015 HOME MORTGAGE DISCLOSURE ACT LOANS
BY INCOME LEVEL OF GEOGRAPHY**

Census Tract Income Level	Bank Loans				% of Owner- Occupied Units ¹
	#	\$(000)	#%	\$%	
Total Home Mortgage Loans					
Low	4	196	7.5	4.3	3.3
Moderate	26	2,177	49.1	47.2	25.2
Middle	14	1,303	26.4	28.3	30.8
Upper	9	933	17.0	20.2	40.7
Total	53	4,609	100.0	100.0	100.0
Home Purchase Loans					
Low	3	136	11.1	7.8	3.3
Moderate	14	588	51.9	33.7	25.2
Middle	6	309	22.2	17.7	30.8
Upper	4	711	14.8	40.8	40.7
Total	27	1,744	100.0	100.0	100.0
Home Refinance Loans					
Low	1	60	6.7	2.2	3.3
Moderate	8	1,552	53.3	56.6	25.2
Middle	4	948	26.7	34.6	30.8
Upper	2	181	13.3	6.6	40.7
Total	15	2,741	100.0	100.0	100.0
Home Improvement Loans					
Low	0	0	0.0	0.0	3.3
Moderate	4	37	36.4	29.8	25.2
Middle	4	46	36.4	37.1	30.8
Upper	3	41	27.3	33.1	40.7
Total	11	124	100.0	100.0	100.0
Multifamily Loans					
Low	0	0	0.0	0.0	3.3
Moderate	0	0	0.0	0.0	25.2
Middle	0	0	0.0	0.0	30.8
Upper	0	0	0.0	0.0	40.7
Total	0	0	0.0	0.0	100.0

¹ The percentage of owner-occupied housing is based on 2015 FFIEC Census data.
(NOTE: Total percentages shown may vary by 0.1 percent due to automated rounding differences.)

**TABLE 12
DISTRIBUTION OF 2015 HOME MORTGAGE DISCLOSURE ACT LOANS
BY BORROWER INCOME LEVELS**

Borrower Income Level	Bank Loans				% of Families ²
	#	\$(000)	#%	\$%	
Total Home Mortgage Loans³					
Low	4	66	7.5	1.4	20.4
Moderate	2	8	3.8	0.2	18.3
Middle	5	611	9.4	13.3	21.0
Upper	18	1,261	34.0	27.4	40.3
Unknown	24	2,663	45.3	57.8	0.0
Total	53	4,609	100.0	100.0	100.0
Home Purchase Loans					
Low	1	58	3.7	3.3	20.4
Moderate	0	0	0.0	0.0	18.3
Middle	2	462	7.4	26.5	21.0
Upper	8	513	29.6	29.4	40.3
Unknown	16	711	59.3	40.8	0.0
Total	27	1,744	100.0	100.0	100.0
Refinanced Loans					
Low	0	0	0.0	0.0	20.4
Moderate	0	0	0.0	0.0	18.3
Middle	1	112	6.7	4.1	21.0
Upper	6	677	40.0	24.7	40.3
Unknown	8	1,952	53.3	71.2	0.0
Total	15	2,741	100.0	100.0	100.0
Home Improvement Loans					
Low	3	8	27.3	6.5	20.4
Moderate	2	8	18.2	6.5	18.3
Middle	2	37	18.2	29.8	21.0
Upper	4	71	36.4	57.3	40.3
Unknown	0	0	0.0	0.0	0.0
Total	11	124	100.0	100.0	100.0

¹ Aggregate loan data not available for 2015.

² Based on 2010 ACS five-year estimate data and 2015 FFIEC Census tract designations.

³ Multifamily loans were not considered in the borrower analysis.

(NOTE: Total percentages shown may vary by 0.1 percent due to automated rounding differences.)

**TABLE 13
VERUS BANK'S 2012 ASSESSMENT AREA DEMOGRAPHICS**

Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low	13	9.5	7,769	5.4	2,611	33.6	29,515	20.6
Moderate	45	32.8	39,068	27.3	6,969	17.8	26,338	18.4
Middle	39	28.5	45,555	31.9	2,759	6.1	30,128	21.1
Upper	40	29.2	50,563	35.4	1,645	3.3	56,974	39.9
Total AA	137	100.0	142,955	100.0	13,984	9.8	142,955	100.0
	Housing Units by Tract	Housing Type by Tract						
		Owner-occupied			Rental		Vacant	
		#	% by tract	% by unit	#	% by unit	#	% by unit
Low	18,521	5,123	3.5	27.7	9,622	52.0	3,776	20.4
Moderate	75,082	36,591	25.0	48.7	29,895	39.8	8,596	11.4
Middle	72,807	48,893	33.4	67.2	19,537	26.8	4,377	6.0
Upper	68,131	55,773	38.1	81.9	9,385	13.8	2,973	4.4
Total AA	234,541	146,380	100.0	62.4	68,439	29.2	19,722	8.4
	Total Businesses by Tract	Businesses by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Low	2,715	10.6	2,266	10.0	357	19.4	92	9.6
Moderate	6,209	24.3	5,419	23.8	531	28.9	259	27.1
Middle	7,809	30.6	7,015	30.9	471	25.7	323	33.9
Upper	8,793	34.4	8,036	35.3	477	26.0	280	29.4
Total AA	25,526	100.0	22,736	100.0	1,836	100.0	954	100.0
Percentage of Total Businesses:			89.1		7.2		3.7	
	Total Farms by Tract	Farms by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Low	6	0.7	5	0.6	1	14.3	0	0.0
Moderate	38	4.4	38	4.4	0	0.0	0	0.0
Middle	417	47.8	413	47.7	4	57.1	0	0.0
Upper	412	47.2	410	47.3	2	28.6	0	0.0
Total AA	873	100.0	866	100.0	7	100.0	0	0.0
Percentage of Total Farms:			99.2		0.8		0.0	

Based on 2010 ACS five-year estimate, 2012 FFIEC Census tract designations, and 2012 D&B data.
(NOTE: Total percentages shown may vary by 0.1 percent due to automated rounding differences.)

**TABLE 14
VERUS BANK'S 2013 ASSESSMENT AREA DEMOGRAPHICS**

Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low	13	9.5	7,769	5.4	2,611	33.6	29,515	20.6
Moderate	45	32.8	39,068	27.3	6,969	17.8	26,338	18.4
Middle	39	28.5	45,555	31.9	2,759	6.1	30,128	21.1
Upper	40	29.2	50,563	35.4	1,645	3.3	56,974	39.9
Total AA	137	100.0	142,955	100.0	13,984	9.8	142,955	100.0
	Housing Units by Tract	Housing Type by Tract						
		Owner-occupied			Rental		Vacant	
		#	% by tract	% by unit	#	% by unit	#	% by unit
Low	18,521	5,123	3.5	27.7	9,622	52.0	3,776	20.4
Moderate	75,082	36,591	25.0	48.7	29,895	39.8	8,596	11.4
Middle	72,807	48,893	33.4	67.2	19,537	26.8	4,377	6.0
Upper	68,131	55,773	38.1	81.9	9,385	13.8	2,973	4.4
Total AA	234,541	146,380	100.0	62.4	68,439	29.2	19,722	8.4
	Total Businesses by Tract	Businesses by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
	#	%	#	%	#	%	#	%
Low	2,547	10.7	2,123	10.1	344	19.1	80	9.8
Moderate	5,760	24.3	5,044	23.9	513	28.5	203	24.8
Middle	7,239	30.5	6,486	30.7	481	26.7	272	33.2
Upper	8,201	34.5	7,471	35.4	465	25.8	265	32.3
Total AA	23,747	100.0	21,124	100.0	1,803	100.0	820	100.0
Percentage of Total Businesses:			89.0		7.6		3.5	
	Total Farms by Tract	Farms by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
	#	%	#	%	#	%	#	%
Low	6	0.7	5	0.6	1	11.1	0	0.0
Moderate	37	4.3	36	4.2	1	11.1	0	0.0
Middle	412	48.1	407	48.0	5	55.6	0	0.0
Upper	402	46.9	400	47.2	2	22.2	0	0.0
Total AA	857	0.0	848	100.0	9	100.0	0	0.0
Percentage of Total Farms:			98.9		1.1		0.0	

Based on 2010 ACS five-year estimate, 2013 FFIEC Census tract designations, and 2013 D&B data.
(NOTE: Total percentages shown may vary by 0.1 percent due to automated rounding differences.)

**TABLE 15
DISTRIBUTION OF 2015 SMALL BUSINESS LOANS
BY INCOME LEVEL OF GEOGRAPHY**

Census Tract Income Level	Small Business Loans ¹				% of Businesses ²
	#	\$(000)	#%	\$%	
Low	0	0	0.0	0.0	10.7
Moderate	6	817	20.0	21.5	23.5
Middle	18	1,591	60.0	41.8	28.8
Upper	6	1,396	20.0	36.7	37.0

¹ CRA defines small business loans as loans in the amount of \$1MM or less.

² Based on 2015 FFIEC Census tract designations and 2015 D&B data.

(NOTE: Total percentages shown may vary by 0.1 percent due to automated rounding differences.)

**TABLE 16
DISTRIBUTION OF 2013 SMALL BUSINESS LOANS
BY INCOME LEVEL OF GEOGRAPHY**

Census Tract Income Level	Small Business Loans ¹				% of Businesses ²
	#	\$(000)	#%	\$%	
Low	0	0	0.0	0.0	10.7
Moderate	4	1,367	30.8	39.9	24.3
Middle	7	1,158	53.8	33.8	30.5
Upper	2	902	15.4	26.3	34.5

¹ CRA defines small business loans as loans in the amount of \$1MM or less.

² Based on 2013 FFIEC Census tract designations and 2013 D&B data.

(NOTE: Total percentages shown may vary by 0.1 percent due to automated rounding differences.)

**TABLE 17
DISTRIBUTION OF 2012 SMALL BUSINESS LOANS
BY INCOME LEVEL OF GEOGRAPHY**

Census Tract Income Level	Small Business Loans ¹				% of Businesses ²
	#	\$(000)	#%	\$%	
Low	0	0	0.0	0.0	10.6
Moderate	0	0	0.0	0.0	24.3
Middle	2	139	50.0	39.1	30.6
Upper	2	216	50.0	60.9	34.4

¹ CRA defines small business loans as loans in the amount of \$1MM or less.

² Based on 2012 FFIEC Census tract designations and 2012 D&B data.

(NOTE: Total percentages shown may vary by 0.1 percent due to automated rounding differences.)

**TABLE 18
DISTRIBUTION OF 2015 SMALL BUSINESS LOANS
BY REVENUE SIZE**

Business Revenue By Size	Small Business Loans ¹				% of Businesses ²
	#	\$(000)	#%	\$%	
\$1MM or less	21	2,555	70.0	67.2	90.1
Over \$1MM	9	1,249	30.0	32.8	9.4
Not Known	0	0	0.0	0.0	0.5

¹ The CRA defines small business loans as loans in the amount of \$1MM or less.
² Based on 2015 D&B data.
(NOTE: Total percentages shown may vary by 0.1 percent due to automated rounding differences.)

**TABLE 19
DISTRIBUTION OF 2013 SMALL BUSINESS LOANS
BY REVENUE SIZE**

Business Revenue By Size	Small Business Loans ¹				% of Businesses ²
	#	\$(000)	#%	\$%	
\$1MM or less	10	2,502	76.9	73.0	89.0
Over \$1MM	3	925	23.1	27.0	7.6
Not Known	0	0	0.0	0.0	3.5

¹ The CRA defines small business loans as loans in the amount of \$1MM or less.
² Based on 2013 D&B data.
(NOTE: Total percentages shown may vary by 0.1 percent due to automated rounding differences.)

**TABLE 20
DISTRIBUTION OF 2012 SMALL BUSINESS LOANS
BY REVENUE SIZE**

Business Revenue By Size	Small Business Loans ¹				% of Businesses ²
	#	\$(000)	#%	\$%	
\$1MM or less	4	355	100.0	100.0	89.1
Over \$1MM	0	0	0.0	0.0	7.2
Not Known	0	0	0.0	0.0	3.7

¹ The CRA defines small business loans as loans in the amount of \$1MM or less.
² Based on 2012 D&B data.
(NOTE: Total percentages shown may vary by 0.1 percent due to automated rounding differences.)